RAO ENERGY SYSTEM OF EAST GROUP

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2013

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company RAO Energy System of East.

We have audited the accompanying consolidated financial statements of Open Joint Stock Company RAO Energy System of East and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain sufficient assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis to express an opinion on the fair presentation of these consolidated financial statements.

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

17 March 2014

Moscow, Russian Federation

T.V. Sirotinskaya, Director (licence no. 01-000527),
ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company RAO Energy System of East

State registration certificate № 1087760000052, issued by Interdistrict Inspection of the Federal Tax Service No. 46 for The Moscow city on 01 July 2008

Certificate of inclusion in the Unified State Register of Legal Entities series 77 №011168014 issued on 01 July 2008

680021, Russian Federation, Khabarovsk, Leningradskaya str., 46

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Translation note:

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RAO Energy System of East Group
Consolidated Statement of Financial Position
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2013	31 December 2012 (restated)	01 January 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	7	84,640	52,364	49,671
Investments in associates	8	1,046	937	947
Available-for-sale financial assets		381	586	785
Deferred tax assets	15	500	320	176
Other non-current assets	9	1,358	988	839
Total non-current assets		**87,925**	**55,195**	**52,418**
Current assets				
Cash and cash equivalents	10	7,552	5,781	4,330
Income tax receivable		309	417	173
Accounts receivable and prepayments	11	22,805	21,430	22,450
Inventories	12	19,036	17,670	16,188
Other current assets		51	1,552	6,875
Total current assets excluding assets of disposal group classified as held for sale		**49,753**	**46,850**	**50,016**
Assets of disposal group classified as held for sale	13	-	28,479	27,873
Total current assets		**49,753**	**75,329**	**77,889**
TOTAL ASSETS		**137,678**	**130,524**	**130,307**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	22,717	22,717	21,558
Treasury shares	14	(410)	(410)	-
Revaluation reserve on property plant and equipment		8,131	8,518	10,394
Retained losses and other reserves		(12,775)	(15,698)	(13,925)
Equity attributable to shareholders of the parent company		**17,663**	**15,127**	**18,027**
Non-controlling interest		10,617	8,957	12,077
TOTAL EQUITY		**28,280**	**24,084**	**30,104**
Non-current liabilities				
Deferred income tax liabilities	15	2,019	2,159	4,097
Non-current debt	16	49,950	24,488	34,102
Other non-current liabilities	17	7,222	7,293	8,386
Total non-current liabilities		**59,191**	**33,940**	**46,585**
Current liabilities				
Current debt and current portion of non-current debt	16	14,724	28,148	18,061
Accounts payable and accruals	19	29,953	23,187	18,059
Current income tax payable		53	335	245
Other taxes payable	20	5,477	4,777	4,252
Total current liabilities excluding liabilities of disposal group classified as held for sale		**50,207**	**56,447**	**40,617**
Liabilities of disposal group classified as held for sale	13	-	16,053	13,001
Total current liabilities		**50,207**	**72,500**	**53,618**
TOTAL LIABILITIES		**109,398**	**106,440**	**100,203**
TOTAL EQUITY AND LIABILITIES		**137,678**	**130,524**	**130,307**

General Director S. N. Tolstoguzov

Chief Accountant A. P. Vaynilavichute

17 March 2014

The accompanying notes are an integral part of these consolidated financial statements.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Revenue	21	139,596	131,284
Government grants	22	13,233	10,796
Expenses	23	(140,997)	(137,647)
Loss on disposal group remeasurement and impairment of property, plant and equipment	7,13	(4,804)	(6,260)
Operating profit/(loss)		**7,028**	**(1,827)**
Profit from disposals of subsidiaries		-	174
Finance income	24	533	648
Finance expenses	24	(5,700)	(5,399)
Share of income/(loss) of associates	8	109	(10)
Impairment of investments in associates	8	-	(155)
Profit/(loss) before income tax		**1,970**	**(6,569)**
Total income tax benefit	15	2,711	1,745
Profit/(loss) for the year		**4,681**	**(4,824)**
Attributable to:			
Shareholders of the parent company		2,772	(2,863)
Non-controlling interest		1,909	(1,961)
Profit/(loss) per share attributable to the shareholders of the parent company – basic and diluted (in Russian Rubles per share)	25	0.0621	(0.0644)
Weighted average number of ordinary shares (in thousands)		42,537,972	42,386,713
Weighted average number of preference shares (in thousands)		2,075,149	2,075,149

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Profit/(loss) for the year		**4,681**	**(4,824)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	7,13	(646)	(3,410)
Remeasurements of pension benefit obligations	18	301	1,556
Total items that will not be reclassified to profit or loss		**(345)**	**(1,854)**
Items that may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale financial assets		(136)	(129)
Total items that may be reclassified subsequently to profit or loss		**(136)**	**(129)**
Total comprehensive income/(loss) for the year		**4,200**	**(6,807)**
Attributable to:			
Shareholders of parent company		2,309	(3,814)
Non-controlling interest		1,891	(2,993)

RAO Energy System of East Group
Consolidated Statement of Changes in Equity
(in millions of Russian Rubles unless noted otherwise)

	Share capital	Treasury shares	Available-for-sale financial assets	Revaluation reserve	Revaluation of pension benefit obligations	Retained losses	Total	Non-controlling interest	Total equity
Balance as at 01 January 2012	**21,558**	**-**	**152**	**10,394**	**-**	**(14,574)**	**17,530**	**11,637**	**29,167**
Restatement due to application of IAS 19 revised	-	-	-	-	330	167	497	441	938
Balance as at 01 January 2012 (restated)	**21,558**	**-**	**152**	**10,394**	**330**	**(14,407)**	**18,027**	**12,078**	**30,105**
Loss for the year	-	-	-	-	-	(2,863)	(2,863)	(1,961)	(4,824)
Other comprehensive income									
Impairment of revalued property, plant and equipment	-	-	-	(1,701)	-	-	(1,701)	(1,709)	(3,410)
Change in fair value of available-for-sale financial assets	-	-	(70)	-	-	-	(70)	(59)	(129)
Remeasurements of pension benefit obligations	-	-	-	-	820	-	820	736	1,556
Total other comprehensive income	-	-	(70)	(1,701)	820	-	(951)	(1,032)	(1,983)
Total comprehensive income for the year	**-**	**-**	**(70)**	**(1,701)**	**820**	**(2,863)**	**(3,814)**	**(2,993)**	**(6,807)**
Shares issue	1,159	(410)	-	-	-	-	749	-	749
Dividends declared	-	-	-	-	-	-	-	(21)	(21)
Transfer of revaluation reserve to retained earnings	-	-	-	(175)	-	175	-	-	-
Effect of changes in non-controlling interest	-	-	-	-	-	165	165	(107)	58
Balance as at 31 December 2012 (restated)	**22,717**	**(410)**	**82**	**8,518**	**1,150**	**(16,930)**	**15,127**	**8,957**	**24,084**
Balance as at 31 January 2012 (restated) (Note 2)	**22,717**	**(410)**	**82**	**8,518**	**1,150**	**(16,930)**	**15,127**	**8,957**	**24,084**
Profit for the year	-	-	-	-	-	2,772	2,772	1,909	4,681
Other comprehensive income									
Change in fair value of available-for-sale financial assets	-	-	(82)	-	-	-	(82)	(54)	(136)
Impairment of revalued property, plant and equipment	-	-	-	(330)	-	-	(330)	(316)	(646)
Remeasurements of pension benefit obligations	-	-	-	-	176	-	176	125	301
Total other comprehensive income	-	-	(82)	(330)	176	-	(236)	(245)	(481)
Total comprehensive income for the year	**-**	**-**	**(82)**	**(330)**	**176**	**2,772**	**2,536**	**1,664**	**4,200**
Transfer of revaluation reserve to retained earnings	-	-	-	(57)	-	57	-	-	-
Dividends declared	-	-	-	-	-	-	-	(4)	(4)
Balance as at 31 December 2013	**22,717**	**(410)**	**-**	**8,131**	**1,326**	**(14,101)**	**17,663**	**10,617**	**28,280**

The accompanying notes are an integral part of these consolidated financial statements.

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	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		**1,970**	**(6,569)**
Depreciation of property, plant and equipment	23	5,174	4,374
Loss on disposal group remeasurement and impairment of property, plant and equipment	7,13	4,804	6,260
(Profit) / loss on disposal of property, plant and equipment	23	(143)	476
Finance expenses, net	24	5,167	4,577
Accrual of impairment of accounts receivable	23	1,778	3,133
(Profit) / loss from associates		(109)	10
Curtailment in pension plan		(1,609)	-
Impairment of investments in associates		-	155
Other expenses / (income)		171	(105)
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**17,203**	**12,311**
Working capital changes:			
Increase in accounts receivable and prepayments		(2,644)	(2,249)
Increase in inventories		(1,734)	(1,355)
Increase in accounts payable and accruals		2,465	7,376
Increase in other taxes payable		540	481
Increase in other non-current assets		(109)	(71)
Increase / (decrease) in other non-current liabilities		200	(88)
Income tax received / (paid)		49	(293)
Net cash generated by operating activities		**15,970**	**16,112**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(13,497)	(17,487)
Proceeds from sale of property, plant and equipment		294	129
Proceeds from sale of promissory notes and other short-term investments		-	37
Purchase of promissory notes and other short-term investments		-	(37)
Disposal of subsidiaries		-	(17)
Acquisition of subsidiaries		-	(59)
Interest received		346	660
Investment in bank deposits		(3,572)	(9,942)
Redemption of bank deposits		5,103	15,328
Net cash used in investing activities		**(11,326)**	**(11,388)**

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	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		94,429	76,852
Repayment of debt		(90,876)	(74,116)
Interest paid		(5,748)	(5,179)
Dividends paid		(1)	(25)
Finance lease payments		(715)	(844)
Net cash used in financing activities		**(2,911)**	**(3,312)**
Increase in cash and cash equivalents		**1,733**	**1,412**
Cash and cash equivalents at the beginning of the year	**10**	**5,819**	**4,407**
Cash and cash equivalents at the end of the year	**10**	**7,552**	**5,819**

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Note 1. RAO Energy System of East Group and its operations

The Open Joint Stock Company RAO Energy System of East (hereinafter referred to as "the Company") was established on 1 July 2008 as a result of the final stage of reorganization of Russian Open Joint Stock Company Unified Energy System of Russia (hereinafter referred to as "RAO UES") through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far Eastern region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the spin-off balance sheet. The consolidated financial statements present the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "RAO Energy System of East Group"). The Group's principal subsidiaries are presented in Note 4.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

According to the decision of the Government of the Russian Federation, No. 1174-p dated 07 July 2011, the Government made an additional contribution to the share capital of OJSC RusHydro (hereinafter referred to as "parent company") by shares of the Company. In February 2013 Government paid additional share issue of OJSC RusHydro by shares of the Company. As a result as at 31 December 2013 OJSC RusHydro owns 84.39 percent of the Company (as at 31 December 2012 65.75 percent). The ultimate controlling party is the Russian Federation. Related party transactions are disclosed in Note 6.

The shares of the Company are traded on the Moscow Stock Exchange.

The Group's principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat retail;
- electricity wholesale.

The Company is registered at 46, Leningradskaya str., Khabarovsk, Russia, 680021.

The Group operates in the Far Eastern Federal District, comprising the Republic of Sakha (Yakutiya), Kamchatka, Primorye and Khabarovsk territories, Amur, Magadan, Sakhalin regions, Evreiskiy, Chukotkskiy autonomous districts and also in Khanty-Mansi and Yamalo-Nenets autonomous districts.

Relations with the State and current regulation. Many consumers of electricity and heat supplied by the Group are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials for the Group (Note 6).

The Government affects the Group's operations through:

- tariff regulation within wholesale electricity and capacity as well as retail electricity and heat markets;
- ratification of the Company's investment programs, including volume and sources of their financing, control over their implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Tariff Service (hereinafter, "FTS") and the retail sale of electricity, capacity and heat via executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The activities of generating and grid companies (except operating within technologically isolated territories of electric power system) are operated by OJSC System Operator of the United Energy System (hereinafter, "SO UES") to maintain the effective operation of the electricity market.

Tariffs on electricity sold by the Group energy companies are set by regional regulating authorities based on maximum possible tariffs approved by FTS.

Tariffs on heat for the Group for all consumers are set by regional regulating authorities of constituents of the Russian Federation in charge of state price (tariffs) regulation.

Operating environment. The economy of the Russian Federation has some characteristics of an emerging economy. The tax, currency and customs legislation of the Russian Federation is developing and may have varying interpretations (Note 26).

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Management reviewed the possible impairment of the Group's fixed assets taking into account the current economic situation and its prospects (Note 7).

Existing uncertainty and volatility in financial markets and other risks could have a negative impact on the Russian financial and corporate sectors.

Management determined accounts receivable impairment provisions considering the economic situation and outlook at the end of the reporting period. The Group's accounts receivable are tested for impairment using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how probable those future events are. Future economic situation and regulatory environment can differ from existing expectations of the management.

The management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Note 2. Summary of significant accounting policies

Basis of preparation. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 27).

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

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The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Acquisition of subsidiaries from parties under common control. Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated.

Investments in associates. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of a result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including non-current investments, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such

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valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. The description of categories of financial assets of the Group is given below.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) financial liabilities at fair value through profit or loss and (b) other financial liabilities. All financial liabilities of the Group including loans are carried at amortized cost.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and

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the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of three months or less in accordance with terms of agreement. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

As at 31 December 2013, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 32.73: USD 1.00 (31 December 2012: RR 30.37: USD 1.00), between Russian Ruble and Euro was RR 44.97: EUR 1.00 (31 December 2012: RR 40.23: EUR 1.00).

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Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings and land owned by the Group are stated at cost.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Social assets are not capitalised if they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively. Useful life of property, plant and equipment is assessed as critical accounting estimate and judgment in applying accounting policy.

The average useful lives of property, plant and equipment by type of facility, in years, were as follows:

Type of facility	Average useful life
Production buildings	25-80
Facilities	10-100
Plant and equipment	5-40
Other	3-30

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Cost of inventory that is expensed is determined on the weighted average basis.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated

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an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal group as a whole is measured at the lower of carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities in respect of undistributed profits of its subsidiaries and jointly controlled companies of the Group as there is no probability that temporary differences will be reversed in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

Post-employment benefits. The Group operates a defined benefit plan that covers the majority of its employees. Defined benefit plans estimate the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the payments for employees and retirees at the end of the reporting period.

The size of payments calculates annually by independent actuary services using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in profit or loss within operating expenses.

Other long-term benefits. The Group pays a one-time financial assistance due to achievement of employees anniversary age. The size of such payments usually dependents on one or more factors such as age, years of service and the minimum wage rate, which is used in the Group.

Actuarial gain and loss as a result of adjustments and changes in actuarial assumptions for other long-term benefits are recognised in the Consolidated income statement in the period of appearance.

Defined contribution plan. For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the

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present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so that as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on delivery of electricity and heat, provision of access to capacity, supply of non-utility services, completion of technological connection and on dispatch of goods during the period. Revenue amounts are presented exclusive of value added tax.

Government grants. Grants from the government represent compensation for the expenses incurred in the current period and are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are included in cash flows from operating activities.

Earnings per share. Preference shares can’t be repurchased and are classified as shares participating in profit distribution. The earnings per ordinary share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Where the Company or its subsidiaries purchase the Company’s equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s owners.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or at the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Social expenditure. To the extent that the Group’s contributions to social programs benefit the community at large without creating constructive obligations to provide such benefits in the future, they are recognised in the income statement as incurred.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimate that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Note 7 and Note 8.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a taxpayer basis.

Management considered the recoverability of deferred tax assets, including those on tax losses carried forward, as probable (Note 15).

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Control over subsidiaries. As at 31 December 2013 the Group owns 49.37% of the voting shares of OJSC Yakutskenergo, in spite of this management believes that it has control over the activities of OJSC Yakutskenergo since it is able to provide the majority of votes at the shareholders meeting as besides OJSC RusHydro the remainder of the shares distributed among a large number of shareholders, the individual contribution of each of which is not material.

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

Note 3. New accounting pronouncements

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10, Consolidated Financial Statements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements* and SIC-12, *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The standard did not have any material impact on the Group's consolidated financial statements.

IFRS 11, Joint Arrangements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the

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entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in the Group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The standard resulted in additional disclosures in these consolidated financial statements (Notes 4, 8).

IFRS 13, Fair Value Measurement *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value, which management considers is[the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. The standard did not have any material impact on the Group's consolidated financial statements, but resulted in additional disclosures in these consolidated financial statements in separate notes for assets and liabilities for which fair value was defined. The fair value hierarchy is presented in the Note 2.

IAS 27, Separate Financial Statements *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)* was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. The amended standard did not have any material impact on the Group's consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (*issued in June 2011, effective for annual periods beginning on or after 1 July 2012)* changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to statement of profit or loss and other comprehensive income. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19, Employee benefits *(issued in June 2011, effective for periods beginning on or after 1 January 2013).* From 1 January 2013 the Group has applied the amendments to IAS 19 retrospectively in accordance with the transition provisions of the standard. Amended IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits. The material impacts of IAS 19 (revised) on the Group's consolidated financial statements are as follows:

- "Actuarial gains and losses" are renamed "remeasurements" and now are recognised immediately in other comprehensive income and thus, will no longer be deferred using the corridor approach or recognised in profit or loss;
- Past-services costs are recognised immediately though profit and loss when they occur;
- The annual expense for the funded benefit plan now include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This replaces the finance charge and expected return on plan assets.

The resulting impacts on the Group's consolidated financial statements are presented below:

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	01 January 2012	Recalculation due to IAS 19 amendments	01 January 2012 (restated)
Deferred tax assets	180	(4)	176
Total effect on assets		**(4)**	
Retained losses and other reserves	(14,422)	497	(13,925)
Non-controlling interest	11,637	441	12,078
Total effect on equity		**938**	
Deferred tax liabilities	4,087	10	4,097
Other non-current liabilities	9,246	(860)	8,386
Liabilities of disposal group classified as held for sale	13,093	(92)	13,001
Total effect on liabilities		**(942)**	

	31 December 2012	Recalculation due to IAS 19 amendments	31 December 2012 (restated)
Deferred tax assets	314	6	320
Assets of disposal group classified as held for sale	28,954	(475)	28,479
Total effect on assets		**(469)**	
Retained losses and other reserves	(17,098)	1,400	(15,698)
Non-controlling interest	7,768	1,189	8,957
Total effect on equity		**2,589**	
Deferred tax liabilities	2,200	(41)	2,159
Other non-current liabilities	9,969	(2,676)	7,293
Liabilities of disposal group classified as held for sale	16,394	(341)	16,053
Total effect on liabilities		**(3,058)**	

	Year ended 31 December 2012	Recalculation due to IAS 19 amendments	Year ended 31 December 2012 (restated)
Expenses	(137,684)	37	(137,647)
Loss on disposal group remeasurement and impairment of property, plant and equipment	(5,784)	(476)	(6,260)
Operating loss	(1,388)	(439)	(1,827)
Finance cost	(5,423)	24	(5,399)
Loss before income tax	(6,156)	(413)	(6,569)
Total income tax benefit	1,236	509	1,745
Loss for the period	**(4,920)**	**96**	**(4,824)**
Attributable to:			
Shareholders of the parent company	(2,945)	82	(2,863)
Non-controlling interest	(1,975)	14	(1,961)
Remeasurements of pension benefit obligations	-	1,556	1,556
Total comprehensive loss for the period	**(8,459)**	**1,652**	**(6,807)**
Attributable to:			
Shareholders of the parent company	(4,716)	902	(3,814)
Non-controlling interest	(3,743)	750	(2,993)
Basic and diluted loss per ordinary and preferred share attributable to the owners of the Company (in RR per share)	(0.0662)	0.0018	(0.0644)

As a result of amended IAS 19 Employee Benefits amount of liabilities of defined benefit plans as of 31 December 2012 decreased by RR 2,676 million, mainly due to the recognition in 2012 of actuarial gains in the amount of RR 1,947 million.

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The amount of revaluation of pension liabilities, net of income taxes recognized in 2012 amounted to RR 1,556 million (revaluation of pension liabilities in the amount of RR 1,947 million net income tax in the amount of 391 million rubles). The revaluation of pension obligations recognized in other comprehensive income for 2012 includes actuarial gains resulting from experience adjustments in the amount of RR 1,387 million and changes in actuarial assumptions in the amount of RR 560 million.

The changes to the accounting policy does not significantly affect the Consolidated Statement of Cash Flows.

Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendments did not have any material impact on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards *(issued in May 2012 and effective for annual periods beginning 1 January 2013).* The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, *Borrowing costs,* retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment is classified as property, plant and equipment rather than inventory if it complies with definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 *(issued in June 2012 and effective for annual periods beginning 1 January 2013).* The amendments clarify the transition guidance in IFRS 10,*Consolidated Financial Statements.* Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group's consolidated financial statements.

Other revised standards and interpretations: IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group's consolidated financial statements. Amendments to IFRS 1, *First-time adoption of International Financial Reporting Standards - Government Loans*, which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later approved for adoption in the Russian Federation and which the Group has not early adopted:

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IFRS 9, Financial Instruments: Classification and Measurement. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities *(issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

IFRIC 21 – Levies *(issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).* The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets *(issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).* The amendments remove the requirement to

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disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting *(issued in June 2013 and effective for annual periods beginning 1 January 2014).*The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendment to have any impact on its financial statements.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later that are not yet adopted in the Russian Federation and which the Group has not early adopted:

Amendments to IAS 19 – Defined benefit plans: Employee contributions *(issued in November 2013 and effective for annual periods beginning 1 July 2014).* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group does not expect the amendment to have any impact on its financial statements.

Annual Improvements to IFRSs *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).* The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the improvements on its consolidated Group financial statements.

Annual Improvements to IFRSs 2013 *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).* The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the improvements on its consolidated Group financial statements.

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IFRS 14, Regulatory Deferral Accounts *(issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).* The standard is applicable only to IFRS first-time adopters.

Note 4. Principal subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2013 and 31 December 2012.

	31 December 2013		31 December 2012	
Name	**Ownership %**	**Voting %**	**Ownership %**	**Voting %**
OJSC DEK	51.08	51.13	51.08	51.13
OJSC DGK (subsidiary of OJSC DEK)	51.08	100.00	51.08	100.00
OJSC DRSK (subsidiary of OJSC DEK)	51.08	100.00	51.08	100.00
Isolated energy systems:				
OJSC Kamchatskenergo	98.74	98.74	98.74	98.74
OJSC Magadanenergo	49.00	64.39	49.00	64.39
OJSC Yakutskenergo*	49.37	49.37	47.39	57.63
OJSC Sakhalinenergo	55.55	55.55	55.55	55.55

* Control is based on the ability to secure a majority of votes on the shareholders meeting.

Difference between the ownership interest and voting interest represents the effect of preference shares.

Summarised financial information related to subsidiaries with significant for Group amount of non-controlling interest as at 31 December 2013 and 31 December 2012, are presented below. All subsidiaries operated in the Russian Federation.

	Year ended and as at 31 December 2013		Year ended and as at 31 December 2012	
	DEK Group	**Yakutskenergo Group**	**DEK Group**	**Yakutskenergo Group**
Percent of non-controlling interest	48.92%	50.63%	48.92%	50.63%
Percent of voting rights, attributable to non-controlling interest	48.87%	50.63%	48.87%	42.37%
Profit/(loss), attributable to non-controlling interest	90	1,056	(2,245)	51
Changes in other comprehensive income, attributable to non-controlling interest	(267)	3	(163)	1,321
Carrying value of non-controlling interest	3,642	4,945	3,819	3,886
Dividends paid during period	-	-	-	11
Current assets	25,156	10,748	21,654	10,188
Non-current assets	53,356	15,545	55,059	12,770
Current liabilities	33,058	7,474	39,543	12,687
Non-current liabilities	42,103	10,212	32,590	3,613
Revenue	91,216	22,839	86,383	21,568
Profit/(loss)	1,516	1,816	315	330
Total comprehensive income/(loss)	1,528	1,822	1,702	275
Cash flows	**2,128**	**29**	**622**	**(202)**
Including:				
Cash generated by operating activities	6,979	3,304	5,845	3,721
Cash used in investing activities	(6,541)	(2,492)	(8,501)	(3,321)
Cash generated by financing activities	(1,690)	(783)	3,278	(602)

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The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law ‘On Joint Stock Companies’ and the charter documents of OJSC RAO Energy System of East and OJSC DEK.

Note 5. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the segments is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated and the performance of segments’ operating activities.

CODM analysed information about the Group in respect of five main reporting segments:

- Segment 1 - OJSC DEK Group’s segment (including OJSC DGK, OJSC DRSK and other OJSC DEK subsidiaries) consists of companies that generate electricity and heat and provide transportation, distribution, construction, repair and other services in the Far Eastern region.
- Segment 2 - OJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Kamchatka territory.
- Segment 3 - OJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Magadan region and Chukotka autonomous district.
- Segment 4 - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Sakhalin region.
- Segment 5 - OJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Republic of Sakha (Yakutiya).

The Group also includes entities supporting Group's operations which are not considered as separate segment by the CODM due to immaterial quantitative data for reporting periods.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

In year 2013 due to the changes in business planning system the CODM analyses results of segments’ operating activities and other information prepared on the same basis as in the Group’s consolidated financial statements prepared in accordance with IFRS. Comparative data for year 2012 were changed for compliance with the current presentation.

The segments’ operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, goodwill and intangible assets, loss on disposal of property, plant and equipment and curtailment in pension plan. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group’s subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt’s balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Intersegment sales are carried out at market prices.

Segment information for the years ended 31 December 2013 and 31 December 2012 and as at 31 December 2013 and 31 December 2012 is presented below:

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Year ended 31 December 2013	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**152,079**	**10,152**	**11,067**	**7,509**	**32,865**	**2,991**	**216,663**	**(77,067)**	**139,596**
including:									
from external companies:	*87,266*	*10,058*	*10,600*	*7,439*	*22,387*	*1,846*	*139,596*	-	**139,596**
sales of electricity	*53,992*	*4,144*	*6,015*	*5,861*	*16,013*	*1,028*	*87,053*	-	**87,053**
sales of capacity	*2,786*	-	-	-	-	-	*2,786*	-	**2,786**
heat sales	*19,128*	*5,664*	*3,691*	*1,140*	*3,381*	-	*33,004*	-	**33,004**
other revenue	*11,360*	*250*	*894*	*438*	*2,993*	*818*	*16,753*	-	**16,753**
from intercompany operations	*64,813*	*94*	*467*	*70*	*10,478*	*1,145*	*77,067*	*(77,067)*	**-**
Government grants	2,705	3,761	2,301	606	3,591	269	13,233	-	**13,233**
Expenses (excluding depreciation and other non-monetary items)	(145,336)	(13,133)	(11,690)	(6,903)	(32,487)	(3,407)	(212,956)	77,159	**(135,797)**
including:									
from intercompany operations	*(56,606)*	*(148)*	*(351)*	*(387)*	*(10,218)*	*(110)*	*(67,821)*	*67,821*	**-**
EBITDA*	**9,448**	**780**	**1,678**	**1,212**	**3,969**	**(147)**	**16,940**	**92**	**17,032**
Depreciation of property, plant and equipment	(2,430)	(153)	(147)	(791)	(1,257)	(476)	(5,254)	80	**(5,174)**
Other non-monetary items	**(3,534)**	**(1,454)**	**7**	**(11)**	**49**	**(6)**	**(4,949)**	**119**	**(4,830)**
including:									
loss on disposal group remeasurement and impairment of property, plant and equipment, net	*(4,804)*	-	-	-	-	-	*(4,804)*	-	**(4,804)**
accrual of impairment for accounts receivable, net	*(314)*	*(1,466)*	*(75)*	*(22)*	*(7)*	*(13)*	*(1,897)*	*119*	**(1,778)**
profit on disposal of property, plant and equipment, net	*(25)*	*12*	*82*	*11*	*56*	*7*	*143*	-	**143**
curtailment in pension plan (Note 14)	*1,609*	-	-	-	-	-	*1,609*	-	**1,609**
Operating profit	**3,484**	**(827)**	**1,538**	**410**	**2,761**	**(629)**	**6,737**	**291**	**7,028**
Finance income	-	-	-	-	-	-	-	-	**533**
Finance expenses	-	-	-	-	-	-	-	-	**(5,700)**
Share of income of associates	-	-	-	-	-	-	-	-	**109**
Profit before income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,970**
Total income tax (expense)/benefit	-	-	-	-	-	-	-	-	**2,711**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,681**
Capital expenditure**	**6,419**	**314**	**1,102**	**1,587**	**3,910**	**3,489**	**16,821**	-	**16,821**
31 December 2013									
Non-current and current debt	**(43,367)**	**(4,717)**	**(890)**	**(4,248)**	**(7,106)**	**(4,346)**	**(64,674)**	**-**	**(64,674)**

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Year ended 31 December 2012	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**145,670**	**9,984**	**9,127**	**8,284**	**30,385**	**3,662**	**207,112**	**(75,828)**	**131,284**
including:									
from external companies:	*82,221*	*9,827*	*8,635*	*7,294*	*21,137*	*2,170*	*131,284*	-	***131,284***
sales of electricity	*52,973*	*3,921*	*5,148*	*5,305*	*14,680*	*1,209*	*83,236*	-	***83,236***
sales of capacity	*1,654*	-	-	-	-	-	*1,654*	-	***1,654***
heat sales	*17,979*	*5,686*	*3,256*	*1,548*	*2,878*	-	*31,347*	-	***31,347***
other revenue	*9,615*	*220*	*231*	*441*	*3,579*	*961*	*15,047*	-	***15,047***
from intercompany operations	*63,449*	*157*	*492*	*990*	*9,248*	*1,492*	*75,828*	*(75,828)*	**-**
Government grants	485	3,596	2,033	928	3,506	248	10,796	-	**10,796**
Expenses (excluding depreciation and other non-monetary items)	(140,930)	(13,303)	(10,591)	(8,162)	(29,583)	(3,702)	(206,271)	76,607	**(129,664)**
including:									
from intercompany operations	*(54,783)*	*(225)*	*(366)*	*(1,250)*	*(9,004)*	*(259)*	*(65,887)*	*65,887*	**-**
EBITDA*	**5,225**	**277**	**569**	**1,050**	**4,308**	**208**	**11,637**	**779**	**12,416**
Depreciation of property, plant and equipment	(2,442)	(62)	(130)	(430)	(1,138)	(189)	(4,391)	17	**(4,374)**
Other non-monetary items	(5,084)	(1,515)	(292)	(85)	(2,709)	(161)	(9,846)	(23)	**(9,869)**
including:									
loss on disposal group remeasurement and impairment of property, plant and equipment, net	*(3,727)*	-	*2*	*21*	*(2,406)*	*(150)*	*(6,260)*	-	***(6,260)***
accrual of impairment for accounts receivable, net	*(1,199)*	*(1,535)*	*(194)*	*(38)*	*(129)*	*(15)*	*(3,110)*	*(23)*	***(3,133)***
profit on disposal of property, plant and equipment, net	*(158)*	*20*	*(100)*	*(68)*	*(174)*	*4*	*(476)*	-	***(476)***
Operating loss	**(2,301)**	**(1,300)**	**147**	**535**	**461**	**(142)**	**(2,600)**	**773**	**(1,827)**
Finance income	-	-	-	-	-	-	-	-	**648**
Finance expenses	-	-	-	-	-	-	-	-	**(5,399)**
Profit from disposals of subsidiaries	-	-	-	-	-	-	-	-	**174**
Share of (loss) / income of associates	-	-	-	-	-	-	-	-	**(10)**
Impairment of investments in associates	-	-	-	-	-	-	-	-	**(155)**
Loss before income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,569)**
Total income tax (expense)/benefit	-	-	-	-	-	-	-	-	**1,745**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,824)**
Capital expenditure**	**4,791**	**714**	**638**	**1,907**	**3,430**	**3,964**	**15,444**	-	**15,444**
31 December 2012									
Non-current and current debt	**(33,246)**	**(4,305)**	**(1,160)**	**(3,823)**	**(9,586)**	**(516)**	**(52,636)**	**-**	**(52,636)**

* EBITDA is determined as earnings before interest, tax, depreciation and amortisation and increased by the amount of loss (reduced by the amount of income) from revaluation of financial investments and others non-cash items.

** Capital expenditure represents additions to property, plant and equipment and construction in progress under RSA, including advances issued to construction companies and suppliers of property, plant and equipment. The amount of capital expenditures in 2013 includes 2,217 million rubles of OJSC DRSK (Reclassification from assets of disposal group).

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Note 6. Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the years ended 31 December 2013 and 31 December 2012 and balances outstanding as at 31 December 2013 and 31 December 2012 with the following government-related banks: OJSC Sberbank of Russia, OJSC Bank VTB, OJSC Bank of Moscow, OJSC Gazprombank, and etc. (Notes 10, 16). Loans are provided at market rates.

The Group sells electricity, capacity and heat to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FTS and executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The Group's sales to government-related entities comprised approximately 32 percent of revenue for the year ended 31 December 2013 (for the year ended 31 December 2012: approximately 29 percent).

During the period the Group received government subsidies in amount of RR 13,233 million (in 2012 in the amount of RR 10,796 million) (Note 22).

The Group's purchases from government-related entities comprised approximately 26 percent of total expenses on purchased for the year ended 31 December 2013 (for the year ended 31 December 2012: 24 percent).

Operating lease commitments accounted by the Group with the Government are disclosed in Note 7.

Transactions with key management of the Group

Remuneration is paid to the members of the Management Board of the Company and the subsidiaries for their services in full time management positions. The remuneration is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Main compensation for key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Total remuneration paid to the General directors and the members of the Management Boards and Boards of Directors of the Company and the major subsidiaries for the year ended 31 December 2013 was RR 605 million (for the year ended 31 December 2012: RR 593 million).

Parent company and entities under common control. In the normal course of business the Group enters into transactions with the OJSC RusHydro (parent company) and entities under common control.

At 31 December 2013 and at 31 December 2012 the outstanding balances with entities controlled by OJSC RusHydro were as follows:

	31 December 2013	31 December 2012
Trade and other receivables	11	35
Trade and other payables	2,059	1,005
Current debt and current portion of non-current debt	1,430	58
Non-current debt	18,613	8,000

The income and expense items with entities controlled by OJSC RusHydro:

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

	Year ended 31 December 2013	Year ended 31 December 2012
Other revenue	672	182
Expenses	7,422	7,050
Finance expenses	892	249

The above balances include the following amounts of transactions and balances with parent company OJSC RusHydro:

	31 December 2013	31 December 2012
Trade and other receivables	6	3
Trade and other payables	1,722	564
Current debt and current portion of non-current debt	1,430	58
Non-current debt	18,613	8,000

The income and expense items with parent company OJSC RusHydro:

	Year ended 31 December 2013	Year ended 31 December 2012
Other revenue	5	5
Expenses	5,454	5,411
Finance expenses	892	249

Associates. The Group sells electricity and heat to its associates for RR 1,956 million for the year ended 31 December 2013 and RR 1,262 million for the year ended 31 December 2012. The Group does not purchase utilities from its associates for the year ended 31 December 2013 (RR 35 million for the year ended 31 December 2012). Accounts receivables with associates comprise RR 188 million as at 31 December 2013 and RR 89 million as at 31 December 2012.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Note 7. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Revalued/initial cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 31 December 2012	**21,263**	**29,128**	**30,787**	**11,095**	**5,274**	**97,547**
Additions	79	530	1,280	12,101	614	14,604
Transfers	757	3,181	4,213	(8,407)	256	-
Reclassification of disposal group (Note 13)	4,700	19,258	12,781	2,490	1,061	40,290
Disposals	(326)	(113)	(173)	(283)	(220)	(1,115)
Closing balance as at 31 December 2013	**26,473**	**51,984**	**48,888**	**16,996**	**6,985**	**151,326**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2012	**(9,135)**	**(15,579)**	**(15,942)**	**(2,619)**	**(1,908)**	**(45,183)**
Depreciation charge	(598)	(1,564)	(2,635)	-	(659)	(5,456)
Transfers	(136)	(203)	(195)	545	(11)	-
Reclassification of disposal group (Note 13)	(1,569)	(8,423)	(5,551)	(515)	(447)	(16,505)
Disposals	64	117	131	32	114	458
Closing balance as at 31 December 2013	**(11,374)**	**(25,652)**	**(24,192)**	**(2,557)**	**(2,911)**	**(66,686)**
Net book value as at 31 December 2013	**15,099**	**26,332**	**24,696**	**14,439**	**4,074**	**84,640**
Net book value as at 31 December 2012	**12,128**	**13,549**	**14,845**	**8,476**	**3,366**	**52,364**

Revalued/initial cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 31 December 2011	**21,198**	**27,778**	**24,306**	**10,326**	**4,600**	**88,208**
Revaluation reserve (net)	(625)	(2,469)	(1,168)	-	(1)	(4,263)
Additions	30	657	1,170	13,340	247	15,444
Transfers	1,129	3,380	6,765	(12,060)	786	-
Disposal of subsidiaries	-	(196)	(34)	(155)	(19)	(404)
Disposals	(469)	(22)	(252)	(356)	(339)	(1,438)
Closing balance as at 31 December 2012	**21,263**	**29,128**	**30,787**	**11,095**	**5,274**	**97,547**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2011	**(8,182)**	**(12,844)**	**(11,704)**	**(3,258)**	**(2,549)**	**(38,537)**
Impairment charge to profit or loss	(888)	(1,899)	(2,005)	(1,004)	(94)	(5,890)
Reversal of impairment through profit or loss	635	662	590	163	1,128	3,178
Depreciation charge	(541)	(1,172)	(2,334)	-	(501)	(4,548)
Transfers	(214)	(361)	(743)	1,344	(26)	-
Disposal of subsidiaries	-	14	16	-	14	44
Disposals	55	21	238	136	120	570
Closing balance as at 31 December 2012	**(9,135)**	**(15,579)**	**(15,942)**	**(2,619)**	**(1,908)**	**(45,183)**
Net book value as at 31 December 2012	**12,128**	**13,549**	**14,845**	**8,476**	**3,366**	**52,364**
Net book value as at 31 December 2011	**13,016**	**14,934**	**12,602**	**7,068**	**2,051**	**49,671**

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Included in the above carrying amount of RR 2,198 million (2012: RR 2,177 million) represents cost of assets relating to office buildings of the Group which are stated at non-revalued deemed cost.

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances issued to construction companies and suppliers of property, plant and equipment. As at 31 December 2013 such advances amounted to RR 235 million (31 December 2012: RR 1,473 million).

Additions to assets under construction include capitalized borrowing costs of RR 867 million (capitalized borrowing cost in 2012: RR 774 million). The capitalization rate was 8.51 percent (2012: 8.54 percent).

Other property, plant and equipment include motor vehicles, land plots, computer equipment, office fixtures and other equipment.

Assets held under finance lease are included in property, plant and equipment with a carrying value of RR 1,577 million as at 31 December 2013 (RR 1 067 million as at 31 December 2012). Assets held under finance lease mainly represented by machinery and equipment.

Assets held under leaseback are included in property, plant and equipment with a carrying value of RR 641 million as at 31 December 2013 (as at 31 December 2012: RR 201 million).

The carrying amount of property, plant and equipment as at 31 December 2013 does not differ materially from their fair value at the end of the reporting period. The Group's management determines the fair value of property, plant and equipment according to the following procedure.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique power generating, heat and grid equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group's management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay for an asset not more than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer’s prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode.

To determine the economic depreciation of specialised assets, the Group's management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions include capital expenditures, discount rates for each cash generating unit, etc. The Group's management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group's management believes that the Company's branches and subsidiaries constitute separate cash generating units.

When the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case, the economic impairment is determined as the difference between the recoverable amount and the replacement cost less physical and functional depreciation.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2013 and 31 December 2012:

Key assumptions used in impairment test	Year ended 31 December 2013	Year ended 31 December 2012
Information used	Actual operating results for the year 2013 and business plans for 2014-2019	Actual operating results for the 2012 and business plans for 2013-2018
Forecast period	11-25 years (2014-2049)	17 years (2013-2039)
Forecasted growth rates	Growth rate equals to a growth rate of operating expenses	
Consolidated forecast of electricity and capacity consumption	Based on management forecast and the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	
Forecast of electricity, capacity and heat tariffs	Based on current system of tariff regulation (RAB, indexing method or “Cost+” method) limited by the Ministry of Economic Development of the Russian Federation	
Forecast of capital expenditures	Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program	
WACC	14%	14%

Impairment as at 31 December 2013

Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased for each reporting date. As a result of this analysis as at 31 December 2013 no such indicators were revealed.

Impairment as at 31 December 2012

As a result of analysis as at 31 December 2012 no indicators of significant changes of management’s assumptions used to determine the recoverable amounts of cash-generating units as at 31 December 2011 were revealed except for the property, plant and equipment related to Group’s companies operating in the Republic Sakha (Yakutiya) - OJSC Yakutskenergo, OJSC Sakhaenergo and OJSC Teploenergoservis (Segment 5).

During the period the Group recognised additional impairment loss in the amount of RR 6,122 million including RR 3,410 million in the consolidated statement of comprehensive income (net of deferred tax RR 853 million) and RR 2,712 million in the consolidated income statement.

The following table as at 31 December 2013 presents sensitivities of property, plant and equipment value to reasonably possible changes in the discount rate, production volumes and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant:

	Change forecast scenario factor					
	WACC		Production volume		Electricity and capacity tariffs	
Expected impact	-0.5%	+0.5%	-0.5%	+0.5%	-1%	+1%
Impact on increase / (decrease) of carrying amount	4,891	(4,523)	(1,088)	1,095	(4,337)	(4,337)

For each revalued class of property, plant and equipment the carrying amount that would have been recognised if the assets had been carried under the cost model is as follows (net of property, plant and equipment of assets held for sale and a disposal group):

	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Net book value as at 31 December 2013	11,131	20,843	24,526	14,645	814	71,959
Net book value as at 31 December 2012	11,767	22,987	22,991	11,240	2,133	71,118

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Pledged fixed assets

As at 31 December 2013 no plant and equipment have been pledged as collateral for borrowings (RR 211 million as at 31 December 2012) (Note 16).

Operating lease

The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2013	31 December 2012
Less than one year	998	1,165
Between one year and five years	1,752	3,704
After five years	14,777	21,689
Total	**17,527**	**26,558**

The major parts are the land areas leased by the Group at the territories on which the Group's electric power stations, substations and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates

The tables below demonstrate the movements in the carrying value of the Group's interests in associates during years ended 31 December 2013 and 31 December 2012:

Associates	Carrying value as at 31 December 2012	Share of profit / (loss) of associates	Carrying value as at 31 December 2013
OJSC Magadanelectroset	14	(1)	13
OJSC ENIN	29	2	31
OJSC Sakhalinskaya energy company	894	66	960
OJSC Sakhalinskaya kommunalnaya company	-	42	42
Total	**937**	**109**	**1,046**

Associates	Carrying value as at 31 December 2011	Reclassification from investment in subsidiaries	Share of profit / (loss) of associates	Impairment of investments in associates	Carrying value as at 31 December 2012
OJSC Magadanelectroset	13	-	1	-	14
OJSC ENIN	30	-	(1)	-	29
OJSC Sakhalinskaya energy company	904	-	(10)	-	894
OJSC Sakhalinskaya kommunalnaya company	-	155	-	(155)	-
Total	**947**	**155**	**(10)**	**(155)**	**937**

In 2013 and 2012 the Group did not receive dividends from associates.

As at and for the year ended 31 December 2013 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45,91%	416	(360)	1,233	(3)
OJSC ENIN	30,42%	223	(123)	587	6
OJSC Sakhalinskaya energy company	8,98%	11,898	(1,207)	1	437
OJSC Sakhalinskaya kommunalnaya company	25%	1,120	(950)	2,138	(30)
Total		**13,657**	**(2,640)**	**3,959**	**410**

As at and for the year ended 31 December 2012 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45.91%	349	(289)	1,090	5
OJSC ENIN	30.42%	150	(55)	394	(4)
OJSC Sakhalinskaya energy company	12.09%	10,762	(3,371)	2	(349)
OJSC Sakhalinskaya kommunalnaya company	48.19%	1,127	(1,216)	2,219	(200)
Total		**12,388**	**(4,931)**	**3,705**	**(548)**

Changes in associates

OJSC Sakhalinskaya energy company

As at 31 December 2012 due to additional share issue Group's share in OJSC Sakhalinskaya energy company has decreased to 12.09 percent. OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 31 December 2012 as the Company has its representative on the board of directors of OJSC Sakhalinskaya energy company, participates in policy-making processes and provides essential technical information related to capital construction activities and operation of generating facilities. Financial results of OJSC Sakhalinskaya energy company is not material for the Group's Consolidated Income statement for the year ended 31 December 2012.

As at 31 December 2013 due to additional share issue Group's share in OJSC Sakhalinskaya energy company has decreased to 8.98 percent. OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 31 December 2013 based on factors listed above. Financial results of OJSC Sakhalinskaya energy company is not material for Consolidated Statement of Profit and Loss of the Group.

OJSC Sakhalinskaya kommunalnaya company

An additional issue of ordinary shares of OJSC Sakhalinskaya kommunalnaya company was registered on 01 August 2012. As a result Group's share in OJSC Sakhalinskaya kommunalnaya company reduced to 48.19 percent. Starting from 01 August 2012 OJSC Sakhalinskaya kommunalnaya company became an associate company to the Group.

As at 31 December 2013 due to additional share issue Group's share in OJSC Sakhalinskaya kommunalnaya company has decreased to 25 percent. Financial results of OJSC Sakhalinskaya kommunalnaya company is not material for Consolidated Statement of Profit and Loss of the Group.

Note 9. Other non-current assets

	31 December 2013	31 December 2012
Non-current accounts receivable - financial assets (Net of provision for impairment of accounts receivable of RR nil million as at 31 December 2012 and RR 87 million as at 31 December 2011)	366	310
Other non-current assets	992	678
Total other non-current assets	**1,358**	**988**

Fair value of non-current accounts receivable approximates its carrying value.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Note 10. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash at bank	4,462	2,769
Cash equivalents	3,077	3,003
Cash in hand	13	9
Total cash and cash equivalents	**7,552**	**5,781**

Cash and cash equivalents held as at 31 December 2013 and 31 December 2012 comprised current bank deposits with original maturities of three months or less in accordance with the agreements. The credit quality of cash and cash equivalents balances summarised below. Ratings are actual as at 31 December 2013.

	Rating	Rating agency	31 December 2013	31 December 2012
Cash at banks				
OJSC Sberbank	Baa1	Moody's	2,555	1,090
OJSC Gazprombank	BBB-	Standard & Poor's	990	95
OJSC Nomos bank	BB-	Fitch Ratings	290	-
OJSC AKB Rosbank	BBB +	Fitch Ratings	234	504
OJSC Asian-Pasific bank	Baa1	Moody's	33	604
Other			360	476
Total cash at banks			**4,462**	**2,769**
Bank deposits				
CJSC Peresvet Bank	B+	Standard & Poor's	2,483	1,750
OJSC Bank of Moscow	BBB	Standard & Poor's	523	-
OJSC Gazprombank	BBB-	Standard & Poor's	67	17
CJSC Raiffeisenbank	BBB	Standard & Poor's	-	885
OJSC Sberbank	Baa1	Moody's	-	221
OJSC Promsvyazbank	BB-	Fitch Ratings	-	86
Other			4	44
Total cash equivalents			**3,077**	**3,003**

The line Cash and cash equivalents as at 31 December 2012 in the Consolidated Statement of Cash Flows included RR 38 million of cash and cash equivalents held by the disposal group classified as held for sale (Note 13).

Note 11. Accounts receivable and prepayments

	31 December 2013	31 December 2012
Trade receivables (Net of provision for impairment of accounts receivable of RR 7,747 million as at 31 December 2013 and RR 6,297 million as at 31 December 2012)	16,502	15,058
Other receivables (Net of provision for impairment of accounts receivable of RR 606 million as at 31 December 2013 and RR 1,044 million as at 31 December 2012)	1,057	1,042
Total financial assets within accounts receivable	**17,559**	**16,100**
Advances to suppliers and prepayments (Net of provision for impairment of accounts receivable of RR 125 million as at 31 December 2013 and RR 119 million as at 31 December 2012)	3,197	3,549
Value added tax recoverable	2,049	1,781
Total accounts receivable and prepayments	**22,805**	**21,430**

The majority of trade receivables, which are neither past due nor impaired, could be aggregated in several groups based on similarities in their credit quality: receivables of industrial consumers, public sector entities, population.

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). Management of the Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

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Movements in the impairment provision for current and non-current trade and other receivables are as follows:

	2013	2012
As at 1 January	7,428	5,147
Charge for the year	2,986	3,490
Reversal of impairment	(1,467)	(761)
Trade receivables written-off as uncollectible	(606)	(253)
Impairment provision as at 31 December	**8,341**	**7,623**
Reclassification from disposal group (Note 13)	12	-
Disposal of subsidiaries	-	(195)
As at 31 December	**8,353**	**7,428**

As at 31 December 2013 current and non-current trade and other receivables in the amount of RR 5,914 million (31 December 2012: RR 6,327 million) were past due but not impaired. These receivables relate to a number of independent customers (without related parties) without recent history of default.

The ageing analysis of these receivables is as follows:

	31 December 2013	Provision as at 31 December 2013	31 December 2012	Provision as at 31 December 2012
Not past due	12,021	(119)	10,943	(943)
Less than 3 months	2,838	(70)	3,007	(123)
More than 3 and less than 12 months	3,711	(1,331)	3,093	(935)
More than one year	7,599	(6,833)	6,712	(5,427)
Total	**26,169**	**(8,353)**	**23,755**	**(7,428)**

Trade and other accounts receivables relates to the Level 3 fair value measurement hierarchy described in Note 2.

The Group does not hold any accounts receivable pledged as collateral.

Note 12. Inventories

	31 December 2013	31 December 2012
Fuel	13,326	12,430
Materials and supplies	4,489	3,857
Spare parts	987	1,041
Other materials	310	412
Total inventories, gross	**19,112**	**17,740**
Provision for inventory obsolescence	(76)	(70)
Total inventories	**19,036**	**17,670**

No inventories have been pledged as collateral for borrowings as at 31 December 2013 (Note 16).

Note 13. Assets and liabilities of a disposal group classified as held for sale

The decision of the Russian Government No. 1174-p dated 07 July 2011 defined the transfer of OJSC DRSK (Subsidiary of OJSC RAO Energy System of East) to OJSC Federal Grid Company. As as at 31 December 2011 and 31 December 2012 in accordance with management professional judgment the probability of shares transfer was assessed as high, the Group has classified the equity investments in OJSC DRSK as assets of disposal group held for sale.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

	Note	31 December 2012
Non-current assets		
Property, plant and equipment		27,189
Other non-current assets		114
Total non-current assets		**27,303**
Current assets		
Cash and cash equivalents	10	38
Trade receivables	11	453
Advances to suppliers and prepayments	11	14
Other receivables	11	340
Inventories	12	331
Total current assets		**1,176**
Assets of disposal group		**28,479**

	Note	31 December 2012
Non-current liabilities		
Deferred income tax liabilities		2,330
Non-current debt	16	3,951
Other non-current liabilities		1,642
Total non-current liabilities		**7,923**
Current liabilities		
Current debt and current portion of non-current debt	16	4,187
Trade accounts payable		2,825
Advances received		477
Other payables		483
Current income tax payable		-
Other taxes payable		158
Total current liabilities		**8,130**
Liabilities of disposal group		**16,053**

The changes to the Federal Law “On Electric Power Industry" and article 81 of Federal Law “On Joint Stock Companies” were made at the end of year 2013. According to these changes, lease of OJSC Federal Grid Company’s grids is prolonged till 1 July 2029 for territorial grid companies in the number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. Thus the Group could compensate shortfall in income which has arisen due to withdrawal of some consumers from “the last mile” agreements, and the Group’s intentions concerning the transfer of the shares have changed.

Based on the above facts assets and liabilities of OJSC DRSK were recognised at recoverable amount at the date of the decision not to sell and the loss in amount of RR 5,450 million was recognised: RR 4,804 million in profit and loss for the period, RR 646 million in other comprehensive loss (less deferred income tax effect in amount of RR 144 million).

Note 14. Equity

		in thousands of Russian Rubles		
	Number of outstanding and fully paid shares (in thousands)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2013	45,433,972	21,679,411	1,037,575	22,716,986
As at 31 December 2012	45,433,972	21,679,411	1,037,575	22,716,986

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Company was established on 1 July 2008 and as at 31 December 2013 and as at 31 December 2012 all Company's shares were fully paid (Note 1).

On 07 February 2012 2,317,068,930 ordinary shares were issued, including 1,492,472,400 ordinary shares acquired by the Russian Federation, represented by the Federal Agency for State Property Management, for a consideration of RR 748 million including treasury shares amounted RR 410 million. The Report on the share issue was registered with the FSFM (Federal Service of Financial Markets) on 07 February 2012.

Nominal value per each share equals 0.5 RR for ordinary share and for preference share.

Ordinary shares and preference shares

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings of the Company.

Holders of preference shares are entitled to receive annual dividends. Preference shares are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company divided by number of shares which constitute 25 percent from equity of the Company on the date of state registration of the Company as a legal entity.

The amount of dividends paid on each preference share may not be less than the amount of dividends paid on each ordinary share. If the preferred dividends are not paid or are paid not in full, then the preference shares give their holders the right to vote on all matters within the competence of the general meeting of shareholders, since the meeting following the annual meeting, which, irrespective of the reasons it was decided not to pay dividends or decided on partial payment of preferred dividends. Such a voice is terminated with the first payment of dividends on such shares in full.

Dividends

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Standards of Accounting. For 2013, the current year net statutory loss for the Company as reported in the published annual statutory reporting forms was RR 7 595 million (2012: RR 371 million profit) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 6,636 million (2012: RR 14,289 million). However, legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for distributable reserves in these financial statements.

Company did not declare dividends relating to years ended 31 December 2012 and 31 December 2011.

Dividends in the amount of RR 4 million relating to the year ended 31 December 2012 (for the year ended 31 December 2011: RR 21 million) were declared by the subsidiaries in favour of minority holders.

Treasury shares

Treasury shares as at 31 December 2013 amount to 820,851,279 ordinary shares in the amount of RR 410 million (31 December 2012: 820,851,279 ordinary shares in the amount of RR 410 million). The shares were acquired in the process of issuing shares, registered 07 February 2012.

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company owned by the Group are actually controlled by the Group.

Note 15. Income Taxes

Income tax expense recorded in profit or loss comprises the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax income/(expense)	181	(259)
Deferred income tax benefit	2,530	2,004
Total income tax	**2,711**	**1,745**

During years ended 31 December 2013 and 31 December 2012 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Reconciliation of effective tax rate:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit/(loss) before tax	**1,970**	**(6,569)**
Theoretical income tax charge at statutory tax rate of 20 percent	(394)	1,314
Tax effect of items which are not deductible or assessable for taxation purposes	(555)	(502)
Deferred tax recognised in respect of reclassification OJSC DRSK from disposal group (Note 13)	1,873	381
Usage of deferred tax assets written-off in previous periods	1,241	125
Tax losses of previous periods carried forward	1,046	707
Other	(500)	(280)
Total income tax charge	**2,711**	**1,745**

Tax effect of items which are not deductible or assessable for taxation purposes relates mainly to the effect on social and charity costs (RR 268 million for the year ended 31 December 2013 and RR 227 million for the year ended 31 December 2012). Remaining amounts consist of other individually insignificant items which are not deductible for taxation purpose and relate to consulting services, disposal of investments and others.

The data of adjusted tax declarations for previous periods were accounted for in the year ended 31 December 2013 as a result of cameral tax inspections. Major adjustments relate to tax accounting for additional expenses, decreasing taxable profit, and excluding from tax base for previous periods amounts of special-purpose financing. Tax effect of adjusted tax losses composed RR 1,046 million including RR 502 million used to set-off current tax liabilities for previous years, RR 270 million to decrease current income tax charge for the year ended 31 December 2013 and the rest part of RR 274 million was carried forward as deferred tax asset balance as at 31 December 2013.

By application of amended IAS 19 the Group recognised income for the year ended 31 December 2012 as a result of recognition of RR 1,947 million actuarial gain before income tax as a revaluation of pension benefit obligations (Note 3). During the year ended 31 December 2012 the Group retrospectively recognized in other comprehensive income RR 389 million of deferred tax liability related to the revaluation of pension benefit obligation. The Group also partially recognized previously unrecognized deferred tax assets in the amount equal to the amount of deferred tax liability related to income from the revaluation of pension obligations. Recognition of previously unrecognized deferred tax assets is included in income tax.

Deferred tax assets not recognised in the year ended 31 December 2013 relate mainly to accumulated impairment loss accrued on property, plant and equipment for the years before 1 January 2013. The deferred tax assets are not recognised if recoverability of deferred tax assets is not estimated as high.

Deferred taxes analysis by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The tax effect of the movements in the temporary differences for the years ended 31 December 2013 and 31 December 2012 are:

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

	31 December 2012	Charged to the income statement	Charged to the other comprehensive income	Reclassification (disposal group)	31 December 2013
Deferred income tax liabilities	**(2,159)**	**2,907**	**192**	**(2,959)**	**(2,019)**
Property, plant and equipment	(686)	162	158	(2,959)	(3,325)
Trade and other receivables	(8)	(43)	-	-	(51)
Net assets of disposal group	(1,873)	1,873	-	-	-
Other	(32)	(21)	34	-	(19)
Deferred tax offset	*440*	*936*	-	-	*1,376*
Deferred income tax assets	**320**	**(377)**	**(75)**	**632**	**500**
Property, plant and equipment	59	(2)	-	-	57
Trade and other receivables	203	61	-	13	277
Inventory	17	(12)	-	-	5
Other long-term liabilities	214	79	(75)	310	528
Accounts payable and other taxes payable	140	207	-	6	353
Losses carried forward	22	274	-	202	498
Other	105	(48)	-	101	158
Deferred tax offset	*(440)*	*(936)*	-	-	*(1,376)*

	31 December 2011	Charged to the income statement	Charged to the other comprehensive income	Reclassification (disposal group)	Disposal of subsidiaries	31 December 2012
Deferred income tax liabilities	**(4,097)**	**1,768**	**496**	**(351)**	**25**	**(2,159)**
Property, plant and equipment	(1,931)	579	853	(187)	-	(686)
Trade and other receivables	(116)	108	-	-	-	(8)
Net assets of disposal group	(2,254)	381	-	-	-	(1,873)
Other	(85)	400	(357)	-	10	(32)
Deferred tax offset	*289*	*300*	-	*(164)*	*15*	*440*
Deferred income tax assets	**176**	**235**	**-**	**-**	**(93)**	**320**
Property, plant and equipment	31	45	-	-	(17)	59
Trade and other receivables	132	62	-	32	(23)	203
Inventory	3	14	-	-	-	17
Other long-term liabilities	66	124	-	26	(2)	214
Accounts payable and other taxes payable	167	(26)	-	-	-	141
Losses carried forward	38	(16)	-	-	-	22
Other	31	332	-	(222)	(36)	105
Deferred tax offset	*(289)*	*(300)*	-	*164*	*(15)*	*(440)*

Total amount of deductible temporary differences, occurred in separate Group companies, for which deferred income tax assets have not been recognised by the Group comprises RR 22,795 million and RR 29,002 million as at 31 December 2013 and 31 December 2012 respectively.

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Corresponding deferred tax assets occurred in separate Group companies, which have not been recognised by the Group reduced from RR 5,800 million as at 31 December 2012 to RR 4,559 million as at 31 December 2013 due to partial recognition of deferred tax assets during the period and change in pension benefit obligations. Partial recognition of deferred tax assets mainly refer to recognition of additional deferred income tax liabilities related to property, plant and equipment.

Current portion of deferred tax liabilities in the amount of RR 70 million as at 31 December 2013 (31 December 2012: RR 1,884 million) and RR 683 million as at 31 December 2013 (31 December 2012: RR 377 million) of deferred tax assets represents the amounts to be recovered during the next year.

Note 16. Current and non-current debt

Non-current borrowings

	Effective interest rate	Year of maturity	31 December 2013	31 December 2012
OJSC RusHydro	8.00-8.83%/ MosPrime+3.09/ MosPrime+3.87%	2014-2021	18,613	8,000
OJSC Sberbank	7.70-10.00%	2014-2018	15,225	14,553
OJSC Bank of Moscow	MosPrime+2.2%/ 9.31%	2014-2015	7,700	7,717
OJSC Bank VTB	8.39%	2015-2018	4,500	-
EBRD	MosPrime+1.50/ MosPrime+3.45%	2014-2025	3,744	-
OJSC Gazprombank	8.60-10.50%	2014-2015	1,997	3,494
OJSC AKB Rosbank	6.80-9.70%	2014-2015	1,558	6,132
OJSC Rosselkhozbank	15.00-16.00%	2014-2018	103	125
Unsecured bonds issued (OJSC Yakutskenergo)	8.25%	2013	-	3,002
OJSC TransCreditBank	10.50-10.80%	2013	-	901
OJSC NOMOS-Bank	11.89-12.00%	2013	-	380
OJSC NOTA-Bank	9.90%	2013	-	370
OJSC Asian-Pacific Bank	11.70%	2013	-	274
Ministry of Finance of the Republic Sakha (Yakutiya)	2.63%	2013	-	177
Other	8.00%	2014-2036	479	454
Finance lease liabilities	8.70-21.00%	-	1,679	1,448
Total			**55,598**	**47,027**
Less current portion of loans and borrowings	7.30-16.00%	-	(5,014)	(21,775)
Less current finance lease liabilities	8.70-21.00%	-	(634)	(764)
Total Non-current borrowings	**-**	**-**	**49,950**	**24,488**

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Current borrowings

	Effective interest rate	31 December 2013	31 December 2012
OJSC AKB Rosbank	7.68-9.00%	3,413	1,920
OJSC Sberbank	7.61-8.86%	2,240	2,616
OJSC RusHydro	8.30%	1,430	-
OJSC Bank VTB	7.97%	920	-
OJSC Rosselkhozbank	9.63-10.75%	294	-
OJSC Gazprombank	8.00%	225	210
CJSC AKB Peresvet	13.00%	170	87
OJSC Asian-Pacific Bank	10.50%	77	162
OJSC NOMOS-Regiobank	10.00-11.50%	-	219
OJSC Investtorgbank	9.50-11.50%	-	160
Other	-	307	235
Total		**9,076**	**5,609**
Current portion of loans and borrowings	7.30-16.00%	5,014	21,775
Current finance lease liabilities	8.70-21.00%	634	764
Total current borrowings and current part of non-current borrowings	**-**	**14,724**	**28,148**

Currency of all non-current and current borrowings is Russian Ruble.

No property, plant and equipment have been pledged as collateral for borrowings as at 31 December 2013 (as at 31 December 2012 RR 211 million).

As at 31 December 2013 and 31 December 2012 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group did not fulfill some of the requirements as at 31 December 2012. Before the 31 December 2012 management received a covenant waiver from the bank confirming absence of intention to request early repayment of loans. As at 31 December 2013 the Group fulfills all of the requirements.

Management believes that carrying amounts of current and non-current debt approximate fair values (Level 3 in fair value measurement hierarchy described in Note 2).

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2013	678	1,381	-	2,059
Less future interest charges	(44)	(332)	-	(376)
Present value of minimum lease payments at 31 December 2013	**634**	**1,049**	**-**	**1,683**
Minimum lease payments at 31 December 2012	843	821	-	1,664
Less future interest charges	(79)	(137)	-	(216)
Present value of minimum lease payments at 31 December 2012	**764**	**684**	**-**	**1,448**

Note 17. Other non-current liabilities

Other non-current liabilities	**31 December 2013**	**31 December 2012**
Pension benefit obligations (Note 18)*	5,792	5,884
Assets retirement obligation (Reserve for ash dump)	693	618
Other non-current liabilities	737	791
Total other non-current liabilities	**7,222**	**7,293**

* *As at 31 December 2012 RR 1,401 million of pension benefit obligations are presented within assets of disposal group (Note 13).*

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Other non-current liabilities includes non-current advances received under the contracts of technological connection to the grids, in the amount of RR 107 million as at 31 December 2013 and RR 475 million as at 31 December 2012.

Note 18. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2013 and 31 December 2012.

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2012	31 December 2011
Fair value of plan assets	(139)	(206)
Present value of defined benefit obligations	5,931	7,491
Net liability	**5,792**	**7,285**

Movements in the net liability for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2013	**7,491**	**(206)**	**7,285**
Reclassification of plan assets	-	68	68
Current service cost	301	-	301
Interest expense/(income)	431	(13)	418
Past service cost	19	-	19
Curtailment in pension plan	(1,609)	-	(1,609)
Remeasurement effects (for other long-term benefits):			
Actuarial gain – Change in actuarial assumption	(7)	-	(7)
Actuarial gain – Experience adjustment	(28)	-	(28)
Charged to the profit and loss for the year ended 31 December 2013	**(893)**	**(13)**	**(906)**
Remeasurement effects (post-employment benefits):			
Actuarial loss - Change in demographic assumptions	221	-	221
Actuarial gain - Change in financial assumptions	(827)	-	(827)
Actuarial gain - Experience adjustments	223	8	231
Charged to the other comprehensive income for the year ended 31 December 2013 (before income tax)	**(383)**	**8**	**(375)**
Contributions	-	(280)	(280)
Payments	(284)	284	-
At 31 December 2013	**5,931**	**(139)**	**5,792**

On 29 March 2013, OJSC DGK decided to cancel the defined benefit pension plan. The pension liability of cancelled plan was RR 2,458 million. As a consequence of defined benefit pension plan cancellation was the RR 315 million growth of one time retirement payments liabilities and the RR 534 million growth of periodical retirement payments liabilities. These payments were included in collective agreement and were alternatives for defined benefit pension plan. As a result the Group recognized RR 1,609 million curtailment gain for the year ended 31 December 2013 (Note 23).

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2012 (restated)	**8,924**	**(294)**	**8,630**
Reclassification of plan assets	-	83	83
Current service cost	307	-	307
Interest expense/(income)	743	(18)	725
Past service cost	(132)	-	(132)
Remeasurement effects (for other long-term benefits):			
Actuarial gain – Change in actuarial assumption	(29)	-	(29)
Actuarial loss – Experience adjustment	53	-	53
Charged to the profit and loss for the year ended 31 December 2012	**942**	**(18)**	**924**
Remeasurement effects (post-employment benefits):			
Actuarial gain - Change in financial and demographic assumptions	(560)	-	(560)
Actuarial (gain)/loss- Experience adjustments	(1,417)	30	(1,387)
Charged to the other comprehensive income for the year ended 31 December 2012 (before income tax)	**(1,977)**	**30**	**(1,947)**
Contributions	-	(417)	(417)
Payments	(410)	410	-
Other expenses	12	-	12
At 31 December 2012 (restated)	**7,491**	**(206)**	**7,285**

Principal actuarial assumptions as at 31 December are presented below:

	31 December 2013	31 December 2012
Discount rate	7.90%	7.00%
Future salary increases	6.60%	7.00%
Inflation rate	5.10%	5.50%
Staff turnover	Statistical data of the Group for 3 years and employees' age	
Mortality	Russia-2011	Russia-1998

Actuarial assumption	Change in assumption	Net liability charge, mln RUR	Net liability charge, %
Discount rate	1%	(577)	-10%
	-1%	696	12%
Inflation rate	1%	425	7%
	-1%	(350)	-6%
Future salary increase rate	1%	289	5%
	-1%	(248)	-4%
Staff turnover	3%	(668)	-11%
	-3%	1,006	17%
Mortality	10%	(140)	-2%
	-10%	154	3%

The Group expects to contribute RR 279 million to the defined benefit plans during the year beginning 01 January 2014.

Weighted average duration of defined benefit obligation of the Group is 11 years.

Pension plan characteristics and related risk. The Group incur defined pension benefit obligations on the territory of the Russian Federation. Pension plan includes following benefits: one time retirement benefits, benefits for funeral expenses in case of death of the employee or retiree, financial assistance for retiree, pensions for former employees paid through the non-state pension fund.

Size of benefits depends on employees' experience, wages in the last years before retirement, a predetermined fixed amount or a combination of these factors.

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These benefits are usually indexed to inflation or increase of wage for benefits, which depend on wage rate. Exception is for pensions paid through the non-state pension fund, which are not indexed to inflation on the payment stage (the non-state pension fund bears all risks after retirement).

Besides the inflation risk pension plans of the Group are also subject to risks of death and probability of survival.

Plan assets in the non-state pension fund are regulated by legislation and practice.

The Group and non-state pension fund are responsible for plan management, including investment decisions and contribution schedule.

Non-state pension fund has diversified investment portfolio. All non-state pension fund investments of pension savings and pension reserves are made under the current legislation of the Russian Federation, which strictly regulates possible range of financial instruments and their use limits. These measures are also lead to diversification and reduction of investment risks.

The Group fully conveys to the non-state pension fund obligation to pay lifelong non-state pensions to former employees of the Group, funding those commitments by granting pensions. Thus the Group insures risks associated with payment of private pensions (investment risks and the probability of survival).

Note 19. Accounts payable and accruals

	31 December 2013	31 December 2012
Trade payables	16,052	11,443
Other accounts payable	1,702	1,407
Total financial liabilities within accounts payable and accruals	**17,754**	**12,850**
Advances received	7,296	6,161
Settlements with personnel	4,891	4,157
Dividends payable	12	19
Total accounts payable and accruals	**29,953**	**23,187**

Payables to suppliers of property, plant and equipment of RR 1,566 million (31 December 2012: RR 1,116 million) included in current accounts payable.

Accounts payables and accruals related to Level 3 in fair value measurement hierarchy described in Note 2.

Note 20. Other taxes payable

	31 December 2013	31 December 2012
Value added tax	3,450	2,766
Insurance contribution	1,291	1,109
Property tax	337	331
Other taxes	399	571
Total other taxes payable	**5,477**	**4,777**

Note 21. Revenue

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity and capacity	89,839	84,890
Heat and hot water sales	33,004	31,347
Other revenue	16,753	15,047
Total revenue	**139,596**	**131,284**

Other revenue for the years ended 31 December 2013 and 31 December 2012 mainly includes revenue from transportation of electricity and heat, repair and construction services, technological connection, resale of goods, rentals and communication services.

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Note 22. Government grants

In accordance with Federal Law No. 371 dated 30 November 2011 About Federal budget for 2012-2014 and decrees of subdivisions of the Russian Federation some subsidiaries are entitled government subsidies. These government subsidies appropriated for disposition of territory cross-subsidization for the electricity tariffs, compensation of the difference between economically justified tariffs and reduced tariffs at which electricity and heat are sold and for loss compensation on purchased fuel. During the period the Group received government subsidies in amount of RR 13,233 million (in 2012 in the amount of RR 10,796 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region and other Far Eastern regions.

Government grants received by the Group include OJSC DRSK subsidies related to compensation of losses of 2011 year due to suspension of lease of electricity facilities of national grids. In December 2013 the Group received government subsidies from regional budgets of Amur region and Evreyskiy autonomous district amounted RR 2,313 million (nil for the year ended 31 December 2012).

Note 23. Expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Fuel expenses	44,460	45,202
Employee benefit expenses (including payroll taxes and pension benefit expenses)	40,309	37,465
Electricity distribution expenses	12,894	11,613
Purchased electricity and capacity	9,635	8,955
Other materials	7,059	7,128
Depreciation of property, plant and equipment	5,174	4,374
Third parties services, including:	-	-
Services of subcontracting companies	3,364	1,845
Purchase and transportation of heat power	2,699	2,572
Repairs and maintenance	2,382	2,556
Security expenses	1,159	1,086
Rent	1,095	1,430
Transportation expenses	953	853
Services of SO-UES, NP Council Market, CFS	700	646
Consulting, legal and information expenses	688	833
Agency expenses	538	466
Insurance cost	208	206
Other third parties services	2,199	2,569
Accrual of impairment for accounts receivable, net	1,778	3,133
Water usage expenses	1,743	1,686
Taxes other than on income	1,618	1,547
Purchase of oil products for sale	718	6
Social charges	535	532
Loss / (profit) on disposal of property, plant and equipment, net	(143)	476
Curtailment in pension plan (Note 18)	(1,609)	-
Other expenses	841	468
Total expenses	**140,997**	**137,647**

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Note 24. Finance income / (expenses)

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	343	648
Foreign exchange gain	190	-
Finance income	**533**	**648**
Interest expense	(5,008)	(4,182)
Finance lease expense	(255)	(229)
Foreign exchange loss	-	(133)
Other finance expenses	(437)	(855)
Finance expenses	**(5,700)**	**(5,399)**

Note 25. Earnings per share

Basic earnings / (loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore the diluted earnings per share equal the basic earnings per share.

Profit or losses per share from continuing operations are calculated as follows:

	31 December 2013	31 December 2012
Weighted average number of ordinary shares, in thousands	42,537,972	42,386,713
Weighted average number of preference shares, in thousands	2,075,149	2,075,149
Loss attributable to ordinary and preference shareholders, thousand rubles	**2,772,427**	**(2,862,610)**
Basic and diluted loss per ordinary and preference share from loss attributable to the owners of the Company (in RR per share)	0.0621	(0.0644)

Note 26. Contingencies and commitments

Economic environment. The operations and earnings of the Group's subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

Legal proceedings. The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

Tax contingencies. Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Russian transfer pricing legislation was modified and effective from 1 January 2012. New principles are significantly detailed and have more accordance with international principles developed by Organization for Economic Co-operation and Development (OECD). The new transfer pricing legislation also provides the possibility for tax authorities to impose additional tax liabilities in respect of all controllable transactions (transactions with interdependent parties and some sort of transactions with independent parties), if transactions do not comply with market conditions.

During the period the Group's subsidiaries had controllable transactions and transactions, that could be considered as such with a high degree of certainty. The Management of the Group implements internal control procedures to apply requirements of transfer pricing legislation.

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There is no practice in application of new principles at the moment, consequences of trials with tax authorities of the Group's transfer pricing cannot be reliably estimated therefore it may be significant to the financial results and operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management believes that as at 31 December 2013 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The Group recognised environmental provision for land recultivation as at 31 December 2013 and 31 December 2012 (Note 17)

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and even default (Note 16).

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital expenditure commitments. In accordance with separate investment programmes of subsidiaries the Group has to invest RR 64,670 million for the period 2014-2016 for reconstruction of the existing and construction of capacities (RR 77,243 million for the period 2013-2015).

Capital commitments of the Group as at 31 December 2013 are as follows: 2014 year – RR 25,731 million, 2015 year – RR 21,198 million, 2016 year – RR 17,741 million.

Future capital expenditures are mainly related to reconstruction of existed equipment of power plants and grid.

The Government controls Investment programmes execution on a regular basis. Management of the Group plans to finance capital expenditures within Investment programmes both from own and borrowed funds.

Starting from 2013, the Group discloses capital commitments based on the data from Investment programs as this provides more reliable and relevant information in respect of the Group commitments for the acquisition of property, plant and equipment.

Note 27. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, operational and legal risks. Financial risks include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Group is exposed to industry risks in particular due to ongoing changes in the utilities industry due to the liberalisation of the electricity and capacity markets. To manage the risk the Group seeks to establish favorable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FTS.

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Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

To reduce the credit risk in the electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the regulated market, based on the frequency of default, and to establish limits based on the rating of the customer's portfolio.

The Group's management monitors past due balances of receivables and provides ageing analysis and other information about credit risk as disclosed in Note 11.

Financial assets neither past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individually not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Cash has been placed in the financial institutions, which are considered at time of deposit to have minimal risk of default. The Group approves a list of banks for depositing its cash and rules for making such deposits. The Group performs regular assessment of these financial institutions' financial position, monitors their ratings assigned by independent agencies as well as their other performance indicators.

The tables in Note 10 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Consolidated Statement of Financial Position (Note 30).

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) interest bearing assets and liabilities, and (ii) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market fluctuations.

Interest rate risk. Changes in interest rates impact primarily the fair value of loans and borrowings. The interest rates on most significant loans and borrowings are fixed. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As at 31 December 2013 the Group`s current assets are less than current liabilities on RR 454 million (as at 31 December 2012 current assets exceeded current liabilities on RR 2 829 million).

The Group manages liquidity risk as follows:

- tariffs for electricity and heat are set on cost plus basis, which covered the major part of the Group's expenses;
- the Group received continuing strong support from Government in the form of grants received for compensation of low electricity tariff (Note 22);
- the Group considers the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities is represented by advances received for future services and electricity supply, which also guarantees the demand on the Group's products.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

The table below shows liabilities as at 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments. Such undiscounted cash flows differ from the amount included in the Consolidated statement of financial position because the Consolidated statement of financial position amount is based on discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2013 is as follows:

	Less than 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	5 years
Liabilities						
Current and non-current debt	18,492	23,312	6,246	3,711	21,614	6,788
Trade payables (Note 19)	16,052	-	-	-	-	-
Finance lease liabilities	678	755	327	235	64	-
Total future payments, including future principal and interest payments	**35,222**	**24,067**	**6,573**	**3,946**	**21,678**	**6,788**

The maturity analysis of financial liabilities as at 31 December 2012 is as follows:

	Less than 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	5 years
Liabilities						
Current and non-current debt	29,733	8,218	12,412	2,658	1,558	5,257
Trade payables (Note 19)	11,443	-	-	-	-	-
Finance lease liabilities	843	325	293	147	56	-
Total future payments, including future principal and interest payments	**42,019**	**8,543**	**12,705**	**2,805**	**1,614**	**5,257**
Liabilities of disposal group classified as held for sale (Note 13)	**16,053**	**-**	**-**	**-**	**-**	**-**

Note 28. Management of capital

Compliance with the Russian legislation requirements is a key objective of the Group's capital risk management.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than thousand fold of minimal wage according to the Federal Law on the date of the company's registration;
- if net assets of the entity are less than share capital at the end of financial year next to the second financial year or every subsequent financial year, at the end of which net assets of the entity are less than share capital, entity must decrease its share capital to the value not exceeding its net assets or make a decision about liquidation of the company;
- if at the end of second financial year or every subsequent financial year net assets of the entity are less than minimum allowed share capital of the entity, such entity is subject to liquidation.

As at 31 December 2013 and 31 December 2012 the Company was in compliance with the above share capital requirements.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2013 equal to the Group's net assets was RR 28,280 million (31 December 2012: RR 24,084 million).

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Note 29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.
The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	218	-	163	**381**	423	-	163	**586**
Non-financial assets								
Property, plant and equipment (excluding construction in progress, office buildings and land)	-	-	68,003	**68,003**	-	-	41,706	**41,706**
Total assets recurring fair value measurements	**218**	**-**	**68,166**	**68,384**	**423**	**-**	**41,869**	**42,292**

The Group had no liabilities measured at fair value as at 31 December 2013 and 31 December 2012.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2013:

	Fair value	Valuation technique	Significant unobservable inputs	Reaso-nable change	Sensitivity of fair value measu-rement
Non-financial assets					
Property, plant and equipment (excluding construction in progress, office buildings and land)	68,003	Discounted cash flows	Production volumes	-0.50%	(1,088)
			Discount rate	0.50%	(4,523)
			Electricity and capacity prices	-1.00%	(4,337)
Total recurring fair value measurements at Level 3	**68,003**				**(9,948)**

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2013 and 31 December 2012.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets carried at amortised cost. The Group considers that the fair value of cash, short term deposits and accounts receivable approximates their carrying value. The fair value of long term accounts receivable is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. The fair value of Eurobonds and Russian bonds is based on quoted market prices (Level 1 of the fair value hierarchy). Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy). The fair value of liabilities carried at amortised cost approximates their carrying value.

Note 30. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, Financial Instruments: Recognition and Measurement as at 31 December 2013:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 9)	**366**	**-**	**366**
Non-current accounts receivable	366	-	366
Available-for-sale financial assets	**-**	**381**	**381**
Trade and other receivables (Note 11)	**17,559**	**-**	**17,559**
Trade receivables	16,502	-	16,502
Other receivables	1,057	-	1,057
Other current assets	**13**	**-**	**13**
Current deposits	13	-	13
Cash and cash equivalents (Note 10)	**7,552**	**-**	**7,552**
Total financial assets	**25,490**	**381**	**25,871**
Total non-financial assets	**111,807**	**-**	**111,807**
Total assets	**137,297**	**381**	**137,678**

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2012:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 9)	**310**	**-**	**310**
Non-current accounts receivable	310	-	310
Available-for-sale financial assets	**-**	**586**	**586**
Trade and other receivables (Note 11)	**16,100**	**-**	**16,100**
Trade receivables	15,058	-	15,058
Other receivables	1,042	-	1,042
Other current assets	**1,366**	**-**	**1,366**
Current deposits	1,366	-	1,366
Cash and cash equivalents (Note 10)	**5,781**	**-**	**5,781**
Total financial assets	**23,557**	**586**	**24,143**
Available-for-sale assets and financial assets of disposal group classified as held for sale	**831**	**-**	**625**
Total non-financial assets	**77,902**	**-**	**77,902**
Non-financial assets of disposal group classified as held for sale	**27,648**	**-**	**27,247**
Total assets	**129,938**	**586**	**130,524**

This is an English translation of the Russian original, which is the official version and takes absolute precedence.

Note 31. Subsequent events

After the end of the reporting period the Group has concluded loan agreement with OJSC Sberbank in total amount of RR 1,100 million with maturity date not later than 29 April 2016 and annual interest rate of 8.02 percent; also it has concluded loan agreement with OJSC Gazprombank in total amount of RR 620 million with maturity date not later than 29 January 2016 and annual interest rate of 8.65 percent.

In January – February 2014 the Group received cash under credit lines of OJSC Sberbank in total amount of RR 1,350 million with maturity dates up to 21 January 2015 and annual interest rates from 7.22 to 8.04 percent; OJSC Rosbank in total amount of RR 1,000 million with maturity dates up to 13 January 2015 and annual interest rates 7.50 percent; OJSC Gazprombank in total amount of RR 900 million with maturity dates up to 11 April 2014 and annual interest rate 8.00 percent.

This is an English translation of the Russian original, which is the official version and takes absolute precedence.